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IPO-palooza and the New Listing Conundrum

In June, Space Exploration Technologies Corp. (SpaceX) successfully completed the largest initial public offering (IPO) in history, introducing roughly $75 billion worth of shares at an overall valuation near $1.77 trillion.[1] With other high-profile companies reportedly preparing to follow suit in the months ahead, an important question looms for investors: how should newly listed public equities be incorporated into investment portfolios? Amid the media hype that surrounds mega-IPOs, the empirical evidence on new listings reveals a distinct, and often counterintuitive pattern of risk and return. Below, we discuss these dynamics, highlighting how the First Trust US Equity Opportunities ETF (FPX) has sought to capitalize on them over the past couple of decades, as well as the First Trust International Equity Opportunities ETF (FPXI), which applies a similar approach to new listings domiciled outside the United States.

The New Listing Conundrum

New IPOs often generate substantial attention from the financial media, with well-earned expectations of robust returns on their first trading day. According to data from Professor Jay R. Ritter of the University of Florida, the average first-day return for the 9,253 US-listed IPOs from 1980 through 2025 was roughly 19.0%.[2] From the perspective of a company issuing stock, this systematic "underpricing" of IPOs can be rationalized as the cost of broadening its investor base. In the days that follow an IPO, however, subsequent performance has generally been lackluster. In fact, data from IPOX Schuster on US domiciled IPOs and spin-offs from 2001 through June of 2026 shows that the majority of these stocks had negative returns over the subsequent 12, 24, 36, and 48 months after their initial trading day (see table below).[3]

Table 1: Aftermarket Performance of US IPOs, Spin-offs, and Similar Companies (January 2001-June 2026)*

	Initial Trading Day Return	Aftermarket Performance Following Initial Trading Day				
		1 Month	12 Months	24 Months	36 Months	48 Months
25th Percentile	0.0%	-8.47%	-41.16%	-61.34%	-69.78%	-73.15%
Median	5.3%	5.47%	0.19%	-10.51%	-14.07%	-17.13%
Average	19.3%	22.79%	25.01%	28.89%	32.34%	39.55%
75th Percentile	23.1%	32.64%	52.08%	63.80%	69.57%	71.68%
Negative	18%	48%	53%	59%	58%	59%

Source: IPOX Schuster. *Includes stocks that went public from January 2001-June 2022 to allow for 4 years of trailing performance. Returns are equally weighted price returns.

To some investors, an initial read of this data might suggest a strategy of avoiding recent IPOs altogether, but a closer look reveals an intriguing pattern that has proven more constructive. While median returns over several periods were indeed negative, average (mean) returns were generally much higher over the same periods. These positively skewed returns were the result of the exceptionally strong performance of a small number of outliers, which lifted the average. The effective "cost" for gaining exposure to the potential upside of the "winners" has been accepting exposure to some of the "losers," both of which are difficult to identify in advance. Hence, diversification is critical for investing in recent IPOs, in our opinion.

Spin-offs

Spin-offs also constitute an important cohort of newly listed stocks. Like IPOs, spin-offs are newcomers to the public markets, but with key differences. Spin-offs are often established businesses that are already well understood by analysts who may have covered the parent company. Additionally, the primary goal of many spin-offs isn't necessarily to raise equity capital, but to narrow the parent company's focus and unlock value "trapped" in a conglomerate. As such, spin-offs can serve as a natural complement to IPOs within a diversified portfolio of new listings, in our opinion.

[1]WSJ, June 11, 2026.

[2]*Initial Public Offerings: Underpricing,* Jay R. Ritter, University of Florida, May 18, 2026.

[3]IPOX Schuster

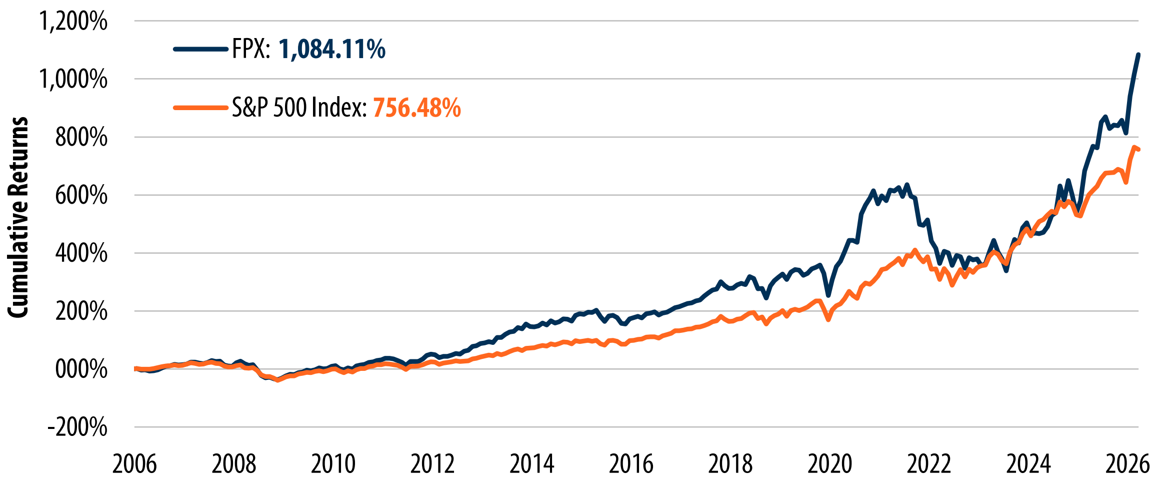
References to specific securities should not be construed as a recommendation to buy or sell and should not be assumed profitable.

Scalable Strategies for Investing in IPOs and Spin-offs

The First Trust US Equity Opportunities ETF (FPX) was launched on April 12, 2006, as a strategy to provide investors with exposure to 100 of the largest US-listed IPOs and spin-offs that have gone public over a trailing 4-year period. Since inception, FPX has outperformed the S&P 500 Index® by a net annualized 1.79% (as of 6/30/26). In our view, several key attributes of this strategy have contributed to its long-term success. For example:

- *Initial performance requirements:* Stocks with abnormally large initial day returns are typically excluded from consideration for FPX's underlying index. In the years preceding the launch of FPX, academic literature demonstrated that stocks with "extra hot" initial day returns tended to underperform in subsequent periods.[4] In our view, limiting exposure to these stocks is a prudent strategy aimed at avoiding overly hyped IPOs.
- *Focus on large IPOs:* Among recent IPOs, smaller stocks with less revenue have tended to underperform their larger counterparts by a wide margin. From 1980-2024, average 3-year returns for US-listed IPOs with revenue <$100 million was 5.3% compared to 36.4% for those with revenue ≥$100 million.[5] By selecting 100 of the largest newly listed stocks, FPX seeks to avoid the underperformance that has been more typical of smaller, less established stocks.
- *Float requirements:* FPX typically excludes companies with less than 15% float at IPO (with some exceptions). While it's common for companies to hold back some of their outstanding shares during an IPO, empirical data has shown that those that have floated too few shares have often underperformed.[6]
- *Incorporating Spin-offs:* In addition to IPOs, FPX includes spin-offs in its universe of eligible stocks. In our view, this provides opportunities for added diversification and exposure to more established companies. The fund currently holds several noteworthy spin-offs, including GE Vernova (spun-off from General Electric in April 2024) and SanDisk (spun-off from Western Digital in February 2025).

Chart 1: FPX Total Return



Data from 4/12/2006-6/30/2026. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

[4] Krigman, Shaw & Womack, "The Persistence of IPO Mispricing and the Predictive Power of Flipping," *Journal of Finance 54* (1999), 1015–1044. The authors defined "extra hot" performance as exceeding 60%.

[5] *Initial Public Offerings: Updated Statistics,* Jay R. Ritter, University of Florida, July 7, 2026. Table 16.

[6] *Initial Public Offerings: Updated Statistics,* Jay R. Ritter, University of Florida, July 7, 2026. Table 18e. Stocks with ≤10% public float had 23.7% average 3-year total returns, compared to 36.4% for all IPOs (both figures are for IPOs with annual sales greater than $100 million), from 1980-2024.

Performance data quoted represents past performance. Past performance is not a guarantee of future results and current performance may be higher or lower than performance quoted. Investment returns and principal value will fluctuate and shares when sold or redeemed, may be worth more or less than their original cost. You can obtain performance information which is current through the most recent month-end by visiting www.ftportfolios.com.

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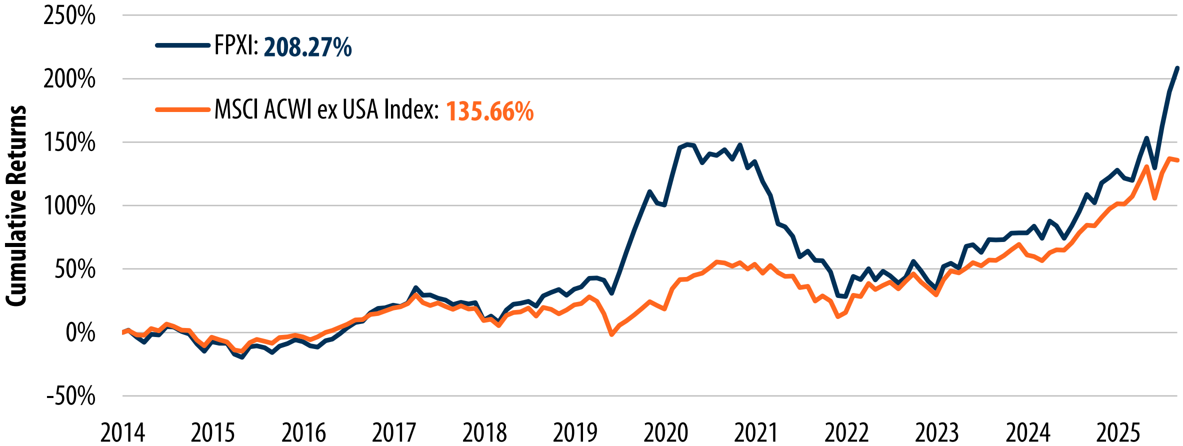
An International Approach to IPOs and Spin-offs

The First Trust International Equity Opportunities ETF (FPXI) was launched on November 4, 2014, as a strategy to capture similar return dynamics for newly listed international equities. This ETF invests in 50 of the largest non-US IPOs and spin-offs (developed and emerging markets) that have gone public over the trailing 4 years. Since inception, FPXI has outperformed the MSCI ACWI ex-USA Index by a net annualized 2.51% (as of 6/30/26).

Chart 2: FPXI Total Return



Data from 11/4/2014-6/30/2026. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

Where Do FPX & FPXI Fit?

Both FPX and FPXI seek to provide meaningful exposure to newly listed stocks, often before these companies are included in traditional benchmarks, resulting in relatively limited overlap. As of 6/30/2026, FPX holdings represented just 4.4% of the S&P 500 Index, and FPXI holdings represented just 3.5% of the MSCI ACWI ex-USA Index. In our view, these strategies offer investors compelling alternatives to traditional "growth" benchmarks, many of which have relatively high levels of overlap with broad benchmarks. For example, the S&P 500 Growth Index accounted for 66.2% of the broader S&P 500 Index, as of 6/30/26.

In the wake of the SpaceX IPO, and with several more IPOs reportedly on the horizon, the temptation to identify individual winners can be strong. While some selectivity is warranted, historical data suggests that breadth may be even more important. For investors seeking systematic, diversified access to recent IPOs and spin-offs at home and abroad, we believe FPX and FPXI are scalable, rules-based solutions worth considering.

Performance Summary (%) as of 6/30/2026

FPX Performance*	3 Month	1 Year	3 Year	5 Year	10 Year	Since Fund Inception
Net Asset Value (NAV)	29.62	43.09	33.10	10.57	15.69	13.00
Market Price	29.51	43.01	33.06	10.54	15.68	13.00
Index Performance**						
IPOX® 100 U.S. Index	29.54	43.33	33.56	11.02	16.20	13.60
Russell 3000® Index	15.44	22.82	20.36	12.31	15.06	10.96
S&P 500® Index	15.20	22.32	20.61	13.41	15.51	11.21
FPXI Performance*						
Net Asset Value (NAV)	34.23	47.66	29.05	4.79	13.86	10.14
Market Price	35.96	49.40	29.71	5.00	13.98	10.26
Index Performance**						
IPOX® International Index	37.25	48.68	30.13	5.63	14.86	11.03
MSCI ACWI ex USA Index	14.49	27.66	18.82	8.79	9.93	7.63

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FPX Inception: 4/12/2006. Total Expense Ratio: 0.57%. Net Expense Ratio: 0.57%. Expenses are capped contractually at 0.60% per year, at least through April 30, 2027. **FPXI** Inception: 11/4/2014. Total Expense Ratio: 0.70%.

*__NAV__ returns are based on the fund's net asset value which represents the fund's net assets (assets less liabilities) divided by the fund's outstanding shares. **Market Price** returns are determined by using the midpoint of the national best bid offer price ("NBBO") as of the time that the fund's NAV is calculated. Returns are average annualized total returns, except those for periods of less than one year, which are cumulative. FPX's performance reflects fee waivers and expense reimbursements, absent which performance would have been lower.

**Performance information for each listed index is for illustrative purposes only and does not represent actual fund performance. Indexes do not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown. Indexes are unmanaged and an investor cannot invest directly in an index.

You should consider a fund's investment objectives, risks, and charges and expenses carefully before investing. Contact First Trust Portfolios L.P. at 1-800-621-1675 or visit www.ftportfolios.com to obtain a prospectus or summary prospectus which contains this and other information about a fund. The prospectus or summary prospectus should be read carefully before investing.

Risk Considerations

You could lose money by investing in a fund. An investment in a fund is not a deposit of a bank and is not insured or guaranteed. There can be no assurance that a fund's objective(s) will be achieved. Investors buying or selling shares on the secondary market may incur customary brokerage commissions. Please refer to each fund's prospectus and Statement of Additional Information for additional details on a fund's risks. The order of the below risk factors does not indicate the significance of any particular risk factor.

Some Asian economies are highly dependent on trade with other countries and there is a high concentration of market capitalization and trading volume in a small number of Asian issuers as well as a high concentration of investors and financial intermediaries. Certain Asian countries experience expropriation and nationalization of assets, confiscatory taxation, currency manipulation, political instability, armed conflict and social instability as a result of religious, ethnic, socio-economic and/or political unrest. In particular, escalated tensions involving North Korea could have severe adverse effect on Asian economies. Recent developments between the U.S. and China have heightened concerns of increased tariffs and restrictions on trade.

Unlike mutual funds, shares of the fund may only be redeemed directly from a fund by authorized participants in very large creation/redemption units. If a fund's authorized participants are unable to proceed with creation/redemption orders and no other authorized participant is able to step forward to create or redeem, fund shares may trade at a premium or discount to a fund's net asset value and possibly face delisting and the bid/ask spread may widen.

Changes in currency exchange rates and the relative value of non-US currencies may affect the value of a fund's investments and the value of a fund's shares.

Current market conditions risk is the risk that a particular investment, or shares of the fund in general, may fall in value due to current market conditions. For example, changes in governmental fiscal and regulatory policies, disruptions to banking and real estate markets, actual and threatened international armed conflicts and hostilities, and public health crises, among other significant events, could have a material impact on the value of the fund's investments.

A fund is susceptible to operational risks through breaches in cyber security. Such events could cause a fund to incur regulatory penalties, reputational damage, additional compliance costs associated with corrective measures and/or financial loss.

Depositary receipts may be less liquid than the underlying shares in their primary trading market and distributions may be subject to a fee. Holders may have limited voting rights, and investment restrictions in certain countries may adversely impact their value.

Investments in emerging market securities are generally considered speculative and involve additional risks relating to political, economic and regulatory conditions.

Equity securities may decline significantly in price over short or extended periods of time, and such declines may occur in the equity market as a whole, or they may occur in only a particular country, company, industry or sector of the market.

Political or economic disruptions in European countries, even in countries in which a fund is not invested, may adversely affect security values and thus the fund's holdings. A significant number of countries in Europe are member states in the European Union, and the member states no longer control their own monetary policies. In these member states, the authority to direct monetary policies, including money supply and official interest rates for the Euro, is exercised by the European Central Bank. The implications of the United Kingdom's withdrawal from the European Union are difficult to gauge and cannot yet be fully known.

An index fund will be concentrated in an industry or a group of industries to the extent that the index is so concentrated. A fund with significant exposure to a single asset class, or the securities of issuers within the same country, state, region, industry, or sector may have its value more affected by an adverse economic, business or political development than a broadly diversified fund.

A fund may be a constituent of one or more indices or models which could greatly affect a fund's trading activity, size and volatility.

There is no assurance that the index provider or its agents will compile or maintain the index accurately. Losses or costs associated with any index provider errors generally will be borne by a fund and its shareholders.

Industrials and producer durables companies are subject to certain risks, including the general state of the economy, intense competition, consolidation, domestic and international politics, excess capacity and consumer demand and spending trends. They may also be significantly affected by overall capital spending levels, economic cycles, technical obsolescence, delays in modernization, labor relations, and government regulations.

Information technology companies are subject to certain risks, including rapidly changing technologies, short product life cycles, fierce competition, aggressive pricing and reduced profit margins, loss of patent, copyright and trademark protections, cyclical market patterns, evolving industry standards and regulation and frequent new product introductions.

A fund that holds securities that traded on non-U.S. exchanges that are closed when the fund's primary exchange is open, will likely experience deviations between the current price of a security and the last quoted foreign price from the closed foreign market. This can result in wider premiums or discounts to a fund's net asset value. Additionally, investors may be unable to trade fund shares on days when events in foreign markets could materially affect a fund's value.

The stocks of companies that have recently conducted an initial public offering are often subject to price volatility and speculative trading. These stocks may have exhibited above average price appreciation in connection with the initial public offering prior to inclusion in a fund. The price of stocks included in a fund may not continue to appreciate and their performance may not replicate the performance exhibited in the past.

Large capitalization companies may grow at a slower rate than the overall market.

Certain fund investments may be subject to restrictions on resale, trade over-the-counter or in limited volume, or lack an active trading market. Illiquid securities may trade at a discount and may be subject to wide fluctuations in market value.

Market risk is the risk that a particular security, or shares of a fund in general may fall in value. Securities are subject to market fluctuations caused by such factors as general economic conditions, political events, regulatory or market developments, changes in interest rates and perceived trends in securities prices. Shares of a fund could decline in value or underperform other investments as a result. In addition, local, regional or global events such as war, acts of terrorism, spread of infectious disease or other public health issues, recessions, natural disasters or other events could have significant negative impact on a fund.

A fund faces numerous market trading risks, including the potential lack of an active market for fund shares due to a limited number of market makers. Decisions by market makers or authorized participants to reduce their role or step away in times of market stress could inhibit the effectiveness of the arbitrage process in maintaining the relationship between the underlying values of a fund's portfolio securities and a fund's market price.

Materials and processing companies are subject to certain risks, including the general state of the economy, consolidation, domestic and international politics and excess capacity. Materials companies may also be significantly affected by volatility of commodity prices, import controls, worldwide competition, liability for environmental damage, depletion of resources and mandated expenditures for safety and pollution control devices.

An index fund's return may not match the return of the index for a number of reasons including operating expenses, costs of buying and selling securities to reflect changes in the index, and the fact that a fund's portfolio holdings may not exactly replicate the index.

A fund classified as "non-diversified" may invest a relatively high percentage of its assets in a limited number of issuers. As a result, a fund may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, experience increased volatility and be highly concentrated in certain issuers.

Securities of non-U.S. issuers are subject to additional risks, including currency fluctuations, political risks, withholding, lack of liquidity, lack of adequate financial information, and exchange control restrictions impacting non-U.S. issuers.

A fund and a fund's advisor may seek to reduce various operational risks through controls and procedures, but it is not possible to completely protect against such risks. The fund also relies on third parties for a range of services, including custody, and any delay or failure related to those services may affect the fund's ability to meet its objective.

A fund that invests in securities included in or representative of an index will hold those securities regardless of investment merit and the fund generally will not take defensive positions in declining markets.

High portfolio turnover may result in higher levels of transaction costs and may generate greater tax liabilities for shareholders.

The market price of a fund's shares will generally fluctuate in accordance with changes in the fund's net asset value ("NAV") as well as the relative supply of and demand for shares on the exchange, and a fund's investment advisor cannot predict whether shares will trade below, at or above their NAV.

A fund may be unable to sell a restricted security on short notice or only sell them at a price below current value.

Securities of small- and mid-capitalization companies may experience greater price volatility and be less liquid than larger, more established companies.

Trading on an exchange may be halted due to market conditions or other reasons. There can be no assurance that a fund's requirements to maintain the exchange listing will continue to be met or be unchanged.

A fund may hold securities or other assets that may be valued on the basis of factors other than market quotations. This may occur because the asset or security does not trade on a centralized exchange, or in times of market turmoil or reduced liquidity. Portfolio holdings that are valued using techniques other than market quotations, including "fair valued" assets or securities, may be subject to greater fluctuation in their valuations from one day to the next than if market quotations were used. There is no assurance that a fund could sell or close out a portfolio position for the value established for it at any time.

In China, direct ownership of companies in certain sectors by foreign individuals and entities is prohibited. In order to allow for foreign investment in these businesses, many Chinese companies have created variable interest entities ("VIEs") structures to enable indirect foreign ownership. VIEs are not formally recognized under Chinese law. Intervention by the Chinese government with respect to VIEs could significantly affect the Chinese company's performance and the enforceability of the VIE's contractual arrangements that establish the links between the Chinese company and the shell company in which the Fund invests. VIEs are also subject to the investment risks associated with the underlying Chinese issuer or operating company. Chinese companies are not subject to the same degree of regulatory requirements or accounting standards and oversight as companies in more developed countries. As a result, information about the Chinese securities and VIEs in which the Fund invests may be less reliable and incomplete.

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Definitions

Russell 3000® Index is comprised of the 3000 largest and most liquid stocks based and traded in the U.S.

S&P 500® Index is an unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

MSCI ACWI ex USA Index captures large- and mid-cap representation across Developed Markets countries (excluding the United States) and Emerging Markets countries.

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